

IDEXX LABORATORIES INC /DE
Form 10-Q
August 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 000-19271

IDEXX LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 01-0393723
(State or other jurisdiction of incorporation (IRS Employer Identification No.)
or organization)

ONE IDEXX DRIVE, WESTBROOK, MAINE 04092
(Address of principal executive offices) (ZIP Code)

207-556-0300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company) Emerging growth company
Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares outstanding of the registrant's Common Stock, \$0.10 par value per share, was 86,590,964 on July 25, 2018.

GLOSSARY OF TERMS AND SELECTED ABBREVIATIONS

In order to aid the reader, we have included certain terms and abbreviations used throughout this Quarterly Report on Form 10-Q below:

| Term/ Abbreviation | Definition |
|-------------------------|---|
| AOCI | Accumulated other comprehensive income or loss |
| ASU 2014-09 | Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606); also referred to as the “New Revenue Standard” |
| ASU 2016-02 | ASU 2016-02, Leases (Topic 842); also referred to as the “New Leasing Standard” |
| ASU 2016-16 | ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory |
| ASU 2018-05 | ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 |
| CAG | Companion Animal Group, a reporting segment that provides veterinarians diagnostic products and services and information management solutions that enhance the health and well-being of pets |
| Credit Facility | Our \$850 million five-year unsecured revolving credit facility under an amended and restated credit agreement that was executed in December 2015, also referred to as line of credit |
| FASB | U.S. Financial Accounting Standards Board |
| LPD | Livestock, Poultry and Dairy, a reporting segment that provides diagnostic products and services for livestock and poultry health and to ensure the quality and safety of milk and improve dairy efficiency |
| OPTI Medical | OPTI Medical Systems, Inc., a wholly-owned subsidiary of IDEXX Laboratories Inc., located in Roswell, Georgia. This business manufactures and supplies blood gas analyzers and consumables worldwide for the human point-of-care medical diagnostics market. The Roswell facility also manufactures electrolytes slides (instrument consumables) to run Catalyst One®, Catalyst Dx®, and blood gas analyzers and consumables for the veterinary market; also referred to as OPTI. |
| Organic revenue growth | A non-GAAP financial measure and represents the percentage change in revenue, as compared to the same period for the prior year, net of the effect of changes in foreign currency exchange rates, business acquisitions and divestitures |
| R&D | Research and Development |
| Reported revenue growth | Represents the percentage change in revenue reported in accordance with U.S. GAAP, as compared to the same period in the prior year |
| SaaS | Software-as-a-service |
| SEC | U.S. Securities and Exchange Commission |
| Senior Note Agreements | Note purchase agreements for the private placement senior notes having an aggregate principal amount of approximately \$600 million, referred to as senior notes and long-term debt |
| 2017 Tax Act | The Tax Cuts and Jobs Act enacted on December 22, 2017, which includes significant changes to the U.S. corporate tax system |
| U.S. GAAP | Accounting principles generally accepted in the United States of America |
| Water | Water, a reporting segment that provides water microbiology testing products around the world |

IDEXX LABORATORIES, INC.
 Quarterly Report on Form 10-Q
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PART I— FINANCIAL INFORMATION

Item 1. Financial Statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(Unaudited)

| | June 30, 2018 | December 31, 2017 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 174,559 | \$ 187,675 |
| Marketable securities | — | 284,255 |
| Accounts receivable, net of reserves of \$4,689 in 2018 and \$4,576 in 2017 | 265,012 | 234,597 |
| Inventories | 176,487 | 164,318 |
| Other current assets | 123,774 | 101,140 |
| Total current assets | 739,832 | 971,985 |
| Long-Term Assets: | | |
| Property and equipment, net | 394,021 | 379,096 |
| Goodwill | 195,974 | 199,873 |
| Intangible assets, net | 39,036 | 43,846 |
| Other long-term assets | 151,822 | 118,616 |
| Total long-term assets | 780,853 | 741,431 |
| TOTAL ASSETS | \$ 1,520,685 | \$ 1,713,416 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities: | | |
| Accounts payable | \$ 68,015 | \$ 66,968 |
| Accrued liabilities | 228,380 | 253,418 |
| Line of credit | 437,000 | 655,000 |
| Current portion of deferred revenue | 40,921 | 29,181 |
| Total current liabilities | 774,316 | 1,004,567 |
| Long-Term Liabilities: | | |
| Deferred income tax liabilities | 35,459 | 25,353 |
| Long-term debt | 603,130 | 606,075 |
| Long-term deferred revenue, net of current portion | 65,362 | 35,545 |
| Other long-term liabilities | 83,267 | 95,718 |
| Total long-term liabilities | 787,218 | 762,691 |
| Total liabilities | 1,561,534 | 1,767,258 |
| Commitments and Contingencies (Note 14) | | |
| Stockholders' Deficit: | | |
| Common stock, \$0.10 par value: Authorized: 120,000 shares; Issued: 104,847 shares in 2018 and 104,275 shares in 2017; Outstanding: 86,642 shares in 2018 and 87,104 shares in 2017 | 10,485 | 10,428 |
| Additional paid-in capital | 1,109,157 | 1,073,931 |

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| | | |
|--|--------------------|--------------------|
| Deferred stock units: Outstanding: 162 units in 2018 and 229 units in 2017 | 4,398 | 5,988 |
| Retained earnings | 989,039 | 803,545 |
| Accumulated other comprehensive income (loss) | (42,559) | (36,470) |
| Treasury stock, at cost: 18,195 shares in 2018 and 17,171 shares in 2017 | (2,111,647) | (1,911,528) |
| Total IDEXX Laboratories, Inc. stockholders' deficit | (41,127) | (54,106) |
| Noncontrolling interest | 278 | 264 |
| Total stockholders' deficit | (40,849) | (53,842) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$1,520,685 | \$1,713,416 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|---|-----------|---|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Product revenue | \$348,621 | \$304,091 | \$666,061 | \$576,056 |
| Service revenue | 232,131 | 204,849 | 452,347 | 394,905 |
| Total revenue | 580,752 | 508,940 | 1,118,408 | 970,961 |
| Cost of Revenue: | | | | |
| Cost of product revenue | 127,270 | 110,330 | 245,516 | 213,357 |
| Cost of service revenue | 121,043 | 105,895 | 237,354 | 206,698 |
| Total cost of revenue | 248,313 | 216,225 | 482,870 | 420,055 |
| Gross profit | 332,439 | 292,715 | 635,538 | 550,906 |
| Expenses: | | | | |
| Sales and marketing | 96,255 | 87,693 | 196,356 | 174,937 |
| General and administrative | 61,080 | 55,460 | 122,011 | 108,374 |
| Research and development | 29,510 | 26,998 | 58,533 | 52,788 |
| Income from operations | 145,594 | 122,564 | 258,638 | 214,807 |
| Interest expense | (8,457) | (9,155) | (17,731) | (17,744) |
| Interest income | 172 | 1,176 | 751 | 2,259 |
| Income before provision for income taxes | 137,309 | 114,585 | 241,658 | 199,322 |
| Provision for income taxes | 28,629 | 29,178 | 43,502 | 44,857 |
| Net income | 108,680 | 85,407 | 198,156 | 154,465 |
| Less: Net (loss) income attributable to noncontrolling interest | (11) | 50 | 14 | 89 |
| Net income attributable to IDEXX Laboratories, Inc. stockholders | \$108,691 | \$85,357 | \$198,142 | \$154,376 |
| Earnings per Share: | | | | |
| Basic | \$1.25 | \$0.97 | \$2.27 | \$1.75 |
| Diluted | \$1.23 | \$0.95 | \$2.23 | \$1.72 |
| Weighted Average Shares Outstanding: | | | | |
| Basic | 87,004 | 88,004 | 87,166 | 88,060 |
| Diluted | 88,596 | 89,878 | 88,786 | 89,962 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|---|----------|---|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$108,680 | \$85,407 | \$198,156 | \$154,465 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (21,492) | 7,954 | (16,327) | 15,968 |
| Unrealized gain (loss) on net investment hedge | 4,479 | (3,767) | 2,263 | (4,860) |
| Unrealized gain on investments, net of tax expense of \$9 and \$49 in 2018 and \$49 and \$23 in 2017 | 32 | 125 | 150 | 86 |
| Unrealized gain (loss) on derivative instruments: | | | | |
| Unrealized gain (loss), net of tax expense (benefit) of \$2,161 and \$1,784 in 2018 and \$(2,287) and \$(3,199) in 2017 | 8,174 | (3,848) | 5,786 | (5,382) |
| Reclassification adjustment for losses (gains) included in net income, net of tax benefit (expense) of \$379 and \$629 in 2018 and \$(280) and \$(681) in 2017 | 454 | (473) | 2,039 | (1,147) |
| Unrealized gain (loss) on derivative instruments | 8,628 | (4,321) | 7,825 | (6,529) |
| Other comprehensive (loss) gain, net of tax | (8,353) | (9) | (6,089) | 4,665 |
| Comprehensive income | 100,327 | 85,398 | 192,067 | 159,130 |
| Less: comprehensive (loss) income attributable to noncontrolling interest | (11) | 50 | 14 | 89 |
| Comprehensive income attributable to IDEXX Laboratories, Inc. | \$100,338 | \$85,348 | \$192,053 | \$159,041 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

For the Six
Months Ended
June 30,
2018 2017

Cash Flows from Operating Activities:

Net income \$ 198,156